

**REPORT OF THE AUDIT OF THE
EASTERN KENTUCKY EXPOSITION CENTER
CORPORATION, INC.**

**For the Year Ended
June 30, 2006**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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TABLE OF CONTENTS	PAGE
INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF FINANCIAL POSITION	3
STATEMENT OF ACTIVITIES.....	4
STATEMENT OF CASH FLOWS.....	6
NOTES TO THE FINANCIAL STATEMENTS.....	7
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	13
COMMENT AND RECOMMENDATION	17



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Board of Directors
Eastern Kentucky Exposition Center Corporation, Inc.

Independent Auditor's Report

We have audited the accompanying statement of financial position of the Eastern Kentucky Exposition Center Corporation, Inc. (Corporation) as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of SMG Food and Beverage, LLC, an agent for the Corporation, whose amounts reflect total assets of \$287,041 as of June 30, 2006 and total support and revenues of \$749,125 for the year then ended of the Corporation. Those statements were audited by other auditors whose report had been furnished to us, and our opinion, insofar as it relates to the amounts included for SMG, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Eastern Kentucky Exposition Center Corporation, Inc. as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 16, 2007, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



Board of Directors
Eastern Kentucky Exposition Center Corporation, Inc.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Eastern Kentucky Exposition Center Corporation Cannot Continue to Operate Within Current Financial Structure

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 16, 2007

EASTERN KENTUCKY EXPOSITION CENTER CORPORATION, INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2006

	<u>Total</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 512,343
Accounts Receivable	59,677
Accounts Receivable-Signage Contracts	135,000
Inventory	32,322
Prepaid Expenses	<u>25,821</u>
Total Current Assets	765,163
Noncurrent Assets:	
Land	2,165,472
Arena Dirt	14,980
Depreciable Assets	
Building	28,327,608
Furniture & Equipment	2,125,722
Less: Accumulated Depreciation (restated)	<u>(669,034)</u>
Total Noncurrent Assets	<u>31,964,748</u>
Total Assets	<u><u>\$ 32,729,911</u></u>
Liabilities and Net Assets	
Current Liabilities	
Accounts Payable	\$ 177,401
Accrued Expenses	21,493
Deferred revenue	114,375
Advance Ticket Sales	3,046
Event Deposits	1,500
Payroll Payable	<u>1,256</u>
Total Current Liabilities	319,071
Noncurrent Liabilities	
Compensated Absence Payable	<u>13,200</u>
Total Liabilities	332,271
Net Assets	
Unrestricted	32,397,640
Total Net Assets	<u>32,397,640</u>
Total Liabilities and Net Assets	<u><u>\$ 32,729,911</u></u>

See accompanying notes to financial statements.

EASTERN KENTUCKY EXPOSITION CENTER CORPORATION, INC.
STATEMENT OF ACTIVITIES

For The Year Ended June 30, 2006

	<u>Total</u>
Revenues, Gains, and Contributions:	
Event revenues	
Direct Events	\$ 181,666
Ancillary revenues	
Food and Beverage	231,060
Catering	54,026
Novelty	64,289
Ticketmaster	211,106
Vending	5,929
Miscellaneous	<u>1,049</u>
Total Event and Ancillary Revenues	749,125
Other:	
Contracts	56,023
Transient Room Tax	44,422
Sponsorship Signage Contracts	38,125
Miscellaneous	300
Interest	119,944
Contribution of Donated Assets	<u>28,327,608</u>
Total Other	<u>28,586,422</u>
Total Revenues, Gains, and Contributions	29,335,547
Expenses:	
Accounting	1,566
Advertising	1,500
Depreciation	663,707
Bank Service Charges	743
Construction Completion Costs	2,634
Contracted Services	19,127
Salary Expense	568,758
Health Insurance	14,481
Equipment	5,543
Furniture	1,062
Furniture Fixtures and Equipment	47,548
Filing Fees	4
Grand Opening Expense	22,710
Insurance - Property	10,156
Insurance - General Liability and Umbrella	28,638
Meeting expense	2,165
Miscellaneous Expense	14,941
Office Supplies	9,478
Postage	708
Printing	303

See accompanying notes to financial statements.

EASTERN KENTUCKY EXPOSITION CENTER CORPORATION, INC.
STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2006
(Continued)

Expenses: (Continued)		
Management Operation Expense	\$	345,889
Management Supplies		55,643
Management Administrative Expense		121,979
Management Fee		90,000
Professional Services		359
Telephone		914
Travel		3,536
Repair and Maintenance		53,140
Utilities		250,200
Other		116
Total Expenses		<u>2,337,548</u>
Increase in net assets		26,997,999
Net assets, beginning of year (restated)		<u>5,399,641</u>
Net assets, end of year	\$	<u><u>32,397,640</u></u>

See accompanying notes to financial statements.

EASTERN KENTUCKY EXPOSITION CENTER CORPORATION, INC.
STATEMENT OF CASH FLOWS

For The Year Ended June 30, 2006

	<u>2006</u>
Cash flows from operating activities:	
Increase in net assets	\$ 26,997,999
Adjustment to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	663,707
(Increase) decrease in,	
Accounts receivable	(194,677)
Donation of Capital Assets	(28,356,968)
Prepaid expense	(25,821)
Increase (decrease) in:	
Accounts payable	177,401
Accrued expenses	21,493
Payroll Liabilities	(48)
Compensated Absence Payable	13,200
Deferred revenue	114,375
Advance ticket sales	3,046
Event deposits	<u>1,500</u>
Net cash provided by operating activities	(584,793)
Cash flows from capital and related financing activities:	
Acquisition of Fixed Assets	<u>(2,127,767)</u>
Net Cash used in capital financing activities	(2,127,767)
Net increase in cash and cash equivalents	(2,712,560)
Cash and cash equivalents, beginning of year	<u>3,224,903</u>
Cash and cash equivalents, end of year	<u><u>\$ 512,343</u></u>

See accompanying notes to financial statements.

EASTERN KENTUCKY EXPOSITION CENTER CORPORATION, INC.
NOTES TO THE FINANCIAL STATEMENTS

June 30, 2006

1. Organization

The Eastern Kentucky Exposition Center Corporation, Inc. (Corporation), a non-profit corporation, was created by Executive Order 98-1020, August 3, 1998, and Executive Order 2000-874, for the purpose of developing, operating, and managing the Corporation and was funded by the 1998 Kentucky General Assembly in House Bill 321. The Corporation was organized as a non-profit, 501(C)(4) corporation with the responsibility of promoting the growth and development of the convention, trade, tourism, hotel, restaurant, and entertainment industry in Eastern Kentucky.

The Corporation entered into an agreement on January 31, 2005 with SMG, a Pennsylvania general partnership, to promote, operate, and manage the facility. Base compensation of \$120,000 will be paid during the management term to SMG.

2. Basis of Presentation and Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of its financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments having maturity at the date of acquisition of three months or less except those classified as investments.

Inventory

Inventory, which is principally operating supplies, food, and beverages, is stated at cost, which approximates market. Cost is determined using the first-in, first-out method.

Property and Equipment

Property and equipment are stated at cost. The Corporation records depreciation on the straight-line method over the estimated useful life of the assets. Current year depreciation expense is \$663,707. The Corporation's capitalization policy is that all capital purchases must be budgeted in a capital budget and approved by the Board of Directors. Capital purchases reported on the financial statements include capital assets in excess of \$1,000.

EASTERN KENTUCKY EXPOSITION CENTER CORPORATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2006
(Continued)

2. Basis of Presentation and Accounting Policies (Continued)

Concentration of Revenues

Eastern Kentucky Exposition Center Corporation, Inc. received grant funding for the construction of the Exposition Center from the Commonwealth of Kentucky surplus and coal severance tax funds. The Exposition Center was completed and opened in October 2005. Revenue is derived from monthly interest payments from the interest on the remaining construction funds, which are currently part of the Kentucky State Investment Pool. Also, funds from a 1% motel tax, contracts, and event and ancillary revenues are used to help finance operations of the Exposition Center.

Tax Exempt Status

The Eastern Kentucky Exposition Center Corporation Inc. is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(4).

Investments

The Corporation's investment holding at June 30, 2006, included \$460,278 in certificates of deposits, which is included in cash and cash equivalents. This investment along with the time and savings accounts produced \$119,944 in interest. The interest is included in the statement of activities.

Functional Expenses

The Corporation promotes the growth and development of various industries in Eastern Kentucky. Expenses related to providing these services approximate 100 percent of total operating expenses for the Corporation for the year ended June 30, 2006. The Corporation classifies the expenses into separate categories that are listed on the statement of activities.

3. Deposits

The Corporation had deposits with financial institutions of 511,249 as of June 30, 2006, which are fully covered by a combination of federal depository insurance and securities held by the pledging financial institution's trust department or agent in the Corporation's name.

EASTERN KENTUCKY EXPOSITION CENTER CORPORATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2006
(Continued)

4. Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance 6/30/2005	Additions	Deletions	Balance 6/30/2006
Capital Assets:				
Land	\$ 2,165,472	\$	\$	\$ 2,165,472
Arena Dirt		14,980		14,980
Buildings		28,327,608		28,327,608
Furniture and Equipment	12,935	2,112,787		2,125,722
Less:				
Accumulated Depreciation	(5,327)	(663,707)		(669,034)
Ending Balance	<u>\$ 2,165,472</u>	<u>\$ 28,342,588</u>	<u>\$ 0</u>	<u>\$ 31,964,748</u>

5. Accounts Receivable

Accounts receivable at June 30, 2006, consists of \$135,000 from sponsorship signage contracts and \$59,677 of other receivables. Based on management's review of accounts receivable, no allowance for doubtful accounts is considered necessary.

6. Prepaid Expenses

Prepaid expenses at June 30, 2006 are \$24,614. This amount consists of \$14,000 for state and city liquor licenses, which cover the 12 months following June 30, 2006, and \$11,821 for various other expenses paid in advance.

7. Deferred Income

Deferred income represents unearned revenues from sponsorship agreement contracts entered into by various sponsors and the Corporation. These agreements grant the sponsors certain advertising rights via advertising and other displays in and around the arena. The term of these agreements commenced on April 1, 2006 and terminates on March 1, 2009, providing yearly payments are paid in advance by the sponsors. Related revenues are recorded over a twelve-month period as payments for the forthcoming year are received. As of June 30, 2006, the balance remaining on the first year's payments are \$114,375.

8. Retirement Plan

The Corporation participates in the Kentucky Employees Retirement System, which is administered by the Board of Trustees of the Kentucky Retirement Systems. This is a defined benefit pension plan, which covers all eligible full-time employees and provides retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The Corporation's contribution rate for nonhazardous employees was 10.98 percent.

EASTERN KENTUCKY EXPOSITION CENTER CORPORATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended June 30, 2006
(Continued)

8. Retirement Plan (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the KERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

9. Changes in Accounting Principal and Prior Period Adjustments

Beginning net assets of the Corporation have been restated by \$2,963 and now reflect certain accruals that were previously omitted from prior year. Beginning net assets are reported as \$5,399,641.

10. Subsequent Event

The Corporation was approved on January 16, 2007 to receive \$250,000 in county coal severance funds through the Pike County Fiscal Court from the Governor's Office for Local Development to reimburse the Corporation for previously purchased facility equipment. The Corporation should receive this reimbursement by June 30, 2007.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

Board of Directors
Eastern Kentucky Exposition Center Corporation, Inc.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the Eastern Kentucky Exposition Center Corporation Inc. (Corporation), as of and for the year ended June 30, 2006, and have issued our report thereon dated February 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The financial statements of SMG Food and Beverage, LLC, an agent for the Corporation, whose amounts reflect total assets of \$287,041 as of June 30, 2006 and total support and revenues of \$749,125 for the year then ended of the Corporation were not audited in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comment and recommendation.

- Eastern Kentucky Exposition Center Corporation Cannot Continue to Operate Within Current Financial Structure

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statement for the year ended June 30, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 16, 2007

COMMENT AND RECOMMENDATION

**EASTERN KENTUCKY EXPOSITION CENTER CORPORATION, INC.
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2006

REPORTABLE CONDITION

Eastern Kentucky Exposition Center Corporation Cannot Continue To Operate Within Current Financial Structure

The Eastern Kentucky Exposition Center Corporation, Inc. (Corporation) cannot continue to operate under its current financial structure. Based on the current contractual management agreement, projected revenues, and interviews with management, the budget is not achievable on an ongoing basis. The Corporation requested a general fund appropriation from the 2006 General Assembly; however, no funds were appropriated. The Corporation has been approved to receive \$250,000 in county coal severance funds through Pike County Fiscal Court from the Governor's Office for Local Development to reimburse the Corporation for previously purchased facility equipment. While these funds address short-term cash flow needs, they are not a recurring revenue source to meet the Corporation's budgetary needs. This does not have an effect on the audited financial statements presented within this report. We recommend the Board continue to aggressively pursue recurring revenue to address budgetary needs.

Chairman of the Board's Response:

The Corporation continues to pursue all avenues of funding – state, county and city, as well as severance tax dollars – multi county and Pike County. We are also discussing with SMG ways of increasing revenue and trimming expenses. We are hopeful that the above efforts will result in financial stability.